

Voluntary - Public

Clearance Office: Office of Global Analysis (OGA)

Date: 4/27/2009

GAIN Report Number: TH9063

Thailand

Post: Bangkok

Intervention Stocks Sell Off Likely

Report Categories:

Grain and Feed

Approved By:

Corey Pickelsimer, Agricultural Attache

Prepared By:

Ponnarong Prasertsi, Agricultural Specialist

Report Highlights:

The Commerce Minister chaired subcommittee for the government stock release agreed on Monday, April 20, to release rice and tapioca intervention stocks within six months. The stock release plan is controversial as domestic prices have been on a downward trend, particularly for rice. Exporters expect Thai rice price to slide below \$500/MT, as compared to current prices of \$580-\$590/MT.

General Information:

The Commerce Minister chaired subcommittee for the government stock release agreed on Monday, April 20, to release rice and tapioca intervention stocks within six months. Despite the delay in Cabinet review on this proposal, the stock release will likely begin next month or sooner once the Term of Reference (TOR) has been finalized by the Public Warehouse Organization (PWO). The proposed stock release plan is controversial among farmer and exporters, particularly rice exporters who concluded earlier contracts at relative high prices for delivery in the next couple of months. Exporters are now fearful that foreign buyers may renegotiate the contracts in anticipation declining prices resulting from the stock release.

1. Rice Stock Release

The Government plans to tender rice intervention stocks of 4-5 million tons over the next couple of weeks. Of the total rice intervention stocks, 1.5 million tons are MY2007/08 second-crop intervention stocks (mostly white rice) and the balance being MY2008/09 main-crop stocks (2 million tons of white rice and one million tons of fragrant). Of the proposed stock release, 3-4 million tons will be tendered for export, and the balance will go through the Agricultural Future Exchange of Thailand. Rice going into the futures market could also end up as exports, but purchase amounts in the futures market will be limited to smaller contracts. Meanwhile, the minimum bidding in the open tender is proposed at 500,000 tons. This requirement seems to favor only a few large-scale exporters who have annual rice sales of around 800,000 – 900,000 tons. Within the proposal, bidding will be based on current market prices which are approximately 30 percent below acquisition prices paid a year ago, which could generate losses of around 7,000 baht/ton (\$198/MT) for the Government. However, bidding prices are expected to be lower than current market prices over expectations that rice prices will continue to fall once Vietnam and India return to the market. Exporters expect Thai rice prices to slide below \$500/MT, as compared to current prices which are at \$580-\$590/MT, when stocks are released. In addition, pressure on export prices will increase from an anticipated depreciation of the Thai baht to 37.0 baht/\$ in the second quarter of this year, and 38.0 baht/\$ by the end of the year.

Despite the release, government stocks are expected to remain high under the current MY2008/09 second-crop intervention program. Presently (as of Apr. 22, 2009), outstanding stocks totaled 1.7 million tons of paddy, most of which are white rice. The program will likely reach its target of 2.5 million tons of paddy by the end on July 31, 2009, as intervention prices are 20-30 percent higher than current market prices.

2. Tapioca Stock Release

The MY2008/09 tapioca intervention program (TH9029), which absorbed 10 million tons of cassava root, will now tender for export. These cassava roots were processed into 2.9 million tons of tapioca chips and 0.7 million tons of tapioca flour. Of the tapioca chips, approximately 500,000 tons will be sold for domestic ethanol production. Bidding will be open until April 24, 2009. The Government expects losses of around \$20-\$25/MT from the sales as intervention prices were set 30-70 percent higher than current market prices.

End of report.